# 2012 Municipal Employees' Pension Plan Annual Report

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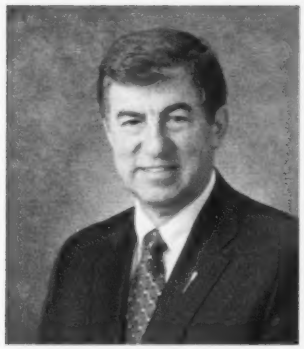
This annual report is available in electronic format at **www.peba.gov.sk.ca**



**Ken Krawetz**
Minister of Finance

Her Honour, The Honourable Vaughn Solomon Schofield
Lieutenant Governor of the Province of Saskatchewan

May it Please Your Honour:

I respectfully submit the Annual Report of the Municipal Employees' Pension Plan for the year ending December 31, 2012.

Ken Krawetz
Minister of Finance

The Honourable Ken Krawetz
Minister of Finance

Sir:

On behalf of the Municipal Employees' Pension Commission, I have the honour of submitting the Annual Report of the Municipal Employees' Pension Plan for the year ending December 31, 2012.

Bonnie Ozirny
Chair

**Bonnie Ozirny**
Chair

I am honoured to chair the Municipal Employees' Pension Commission in 2013. I would like to express appreciation on behalf of the Commission to Earl Braun, for his dedication in serving as the previous Chair.

Along with many other defined benefit pension plans across the globe, the Municipal Employees' Pension Plan (MEPP) continues to experience challenging times. Since the financial downturn in 2008, pension plans like MEPP have suffered from volatile investment returns, and are now experiencing deficits and solvency deficiencies. Low interest rates and increasing life expectancy have also contributed to financial pressure on these plans.

The Commission remains dedicated to manage the Plan in the best interest of its members. As such, it began a review in 2012 to explore all available options to ensure the long-term sustainability of the Plan. This review will continue into 2013.

The Commission continues to offer members valuable services like the MOR*e* online retirement planning tool, Retire*With*Ease retirement planning workshops, and one-on-one meetings with our Retirement Information Consultants who are CERTIFIED FINANCIAL PLANNERS™. Another service included the first online video posted to the website last year – it was very well received by members.

The Commission also created a private equity investment committee in 2012. This committee approves private equity investment funds for MEPP based on their alignment with the Commission's private equity strategic framework.

As we begin 2013, the Commission will continue to be diligent in governing the Plan, being responsive to its members, and making informed decisions. We strive to act always with honesty and in a manner worthy of the trust our members have placed in us.

I am pleased to present the 2012 Annual Report of the Municipal Employees' Pension Plan.

B. Ozirny

Bonnie Ozirny
Chair

# Financial Highlights - 2012

(as at December 31, 2012)

**22.8 thousand**
Plan members

**$51.4 million**
Total pension payroll

**46.9 average age**
Active members

**$74.7 million**
Net contributions

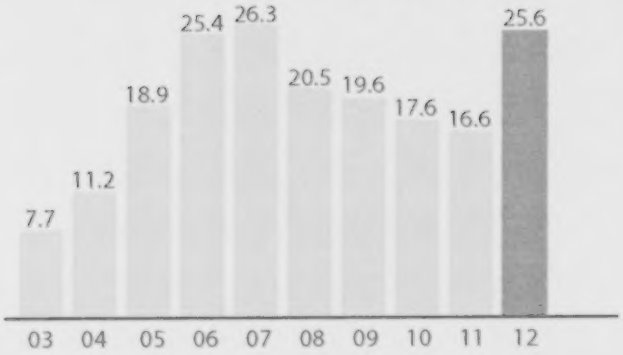
**4.6 thousand**
Pensioners

**$1.6 billion**
Total approximate assets

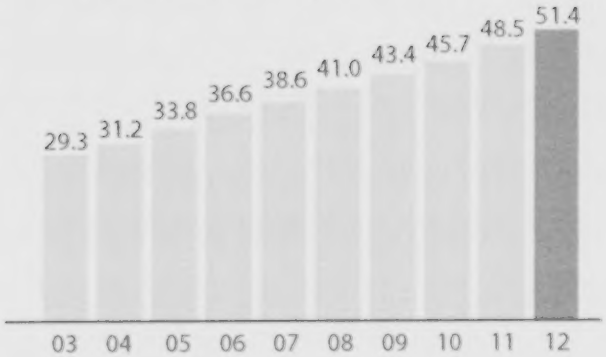
| Total MEPP Fund Investment Performance (%) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
| Total Fund Real Return | 14.5 | 0.6 | 10.0 | 14.5 | (16.2) | 4.2 | 13.6 | 12.1 | 11.4 | 14.9 |
| Benchmark | 10.8 | 0.4 | 10.1 | 15.5 | (17.7) | 3.3 | 12.9 | 10.6 | 9.8 | 14.5 |
| **Rolling 4-year Average Returns (%)** | | | | | | | | | | |
| Total Fund Real Return | 9.8 | 1.5 | 2.4 | 3.2 | 2.7 | 10.3 | 13.0 | 8.9 | 6.5 | 6.2 |
| Benchmark | 9.4 | 0.1 | 1.9 | 2.7 | 1.7 | 9.3 | 12.0 | 6.9 | 3.4 | 2.5 |

| Comparative Investment and Administration Costs (000s) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 |
| Administrative Costs | 4,894 | 4,922 | 4,048 | 3,654 | 3,162 | 2,822 | 2,540 | 2,328 | 2,051 | 2,643 |
| Custodial fees | 518 | 141 | 155 | 167 | 210 | 207 | 128 | 131 | 128 | 164 |
| Investment fees | 5,498 | 4,655 | 4,254 | 4,828 | 6,112 | 3,906 | 3,237 | 2,708 | 2,296 | 2,001 |
| **Totals** | **10,910** | **9,718** | **8,457** | **8,649** | **9,484** | **6,935** | **5,905** | **5,167** | **4,475** | **4,808** |

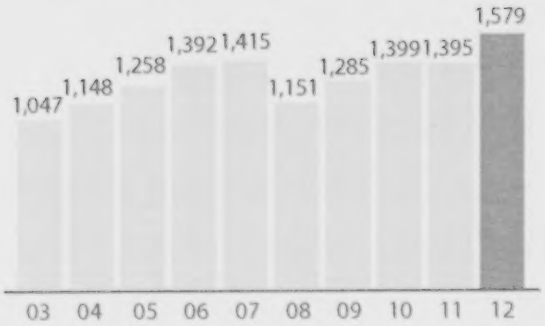
## Transfers, Refunds & Termination Payments ($ millions)



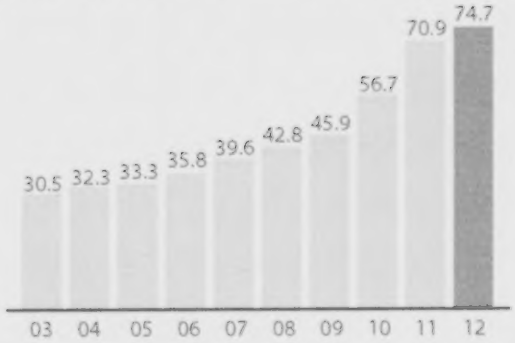

## Pension Payroll ($ millions)




## Total Assets ($ millions)




## Total Contributions & Transfers-In ($ millions)



# The Plan

The history of the Municipal Employees' Pension Plan (MEPP or the Plan) begins in the 1940s. Initially, the Rural Municipal Secretary Treasurer's Superannuation Plan was established in 1941. In 1949, the Urban Employees' Superannuation Plan was established. In 1959, these two plans joined to form the Municipal Employees' Superannuation Plan, which became the current plan in 1973.

MEPP is registered under the *Income Tax Act* (Canada) and is governed by T*he Municipal Employees' Pension Act* and related regulations, and *The Pension Benefits Act, 1992* and related regulations.

The Plan holds more than $1.6 billion in total assets. MEPP's membership consists of more than 18,000 members and 4,500 pensioners.

MEPP is a 'defined benefit' plan. Pensions are based on a formula that provides pension, disability, death and termination benefits for all eligible members. The formula is based on highest average salary, pensionable service and the accrual rate in effect during the years of service. Members contribute a fixed percentage of their salary. Employers match these contributions.

The amount of pension a member will receive is not directly related to investment returns. An adequate level of contributions and positive investment returns are necessary to secure the Plan's ability to pay benefits.

Under normal retirement rules, general members may retire and receive a pension with no reduction if they are 65 years of age, or if their age and eligibility service equal at least 80 years. These members may retire and receive a reduced pension if they have reached age 55 and have at least 15 years of eligibility service.

Designated firefighters and police officers may receive an unreduced pension if their age and eligibility service equal at least 75, they are 55 years of age, or they have at least 25 years of eligibility service. These members may retire and receive a reduced pension if they have reached age 45 and their age and eligibility service equal at least 70.

# Who We Are

## The Commission

The Municipal Employees' Pension Commission has the fiduciary responsibility for administering the Plan and managing the investment activities in the best interests of all MEPP Members.

### Our purpose

To provide retirement income and pension services to members.

### Our mission

To oversee and direct the administration of the Plan, and manage its assets in the best interests of members.

### Our goals

- Provide customer-oriented communications and service.
- Maintain the financial integrity of the Plan.
- Plan governance.
- Accountability.

The Commission has 10 members, five appointed by participating employers and five by employees. The full term of office for Commission members is four years. A member may be appointed for two full terms. Each year the Commission members elect a Chair and a Vice-Chair. The Chair and Vice-Chair are elected for a one-year term. At December 31, 2012, the Commission was composed of the members listed below.

Earl Braun, Chair
Associations representing Designated Police Officers and Firefighters

Roland Zimmer, Vice-Chair
The Saskatchewan Urban Municipalities Association

Bonnie Ozirny, Member
Saskatchewan School Boards Association

Allan Johnson, Member
Regional Colleges/Regional Libraries

Don McCallum, Member
The Rural Municipal Administrators' Association of Saskatchewan

Betty Moleski, Member
Trade Unions representing employees who are members of the Plan

Ray Orb, Member
The Saskatchewan Association of Rural Municipalities

Orrin Redden, Member
The Urban Municipal Administrators' Association of Saskatchewan

Ray Sass, Member
Saskatchewan School Boards Association

Rory Griffith, Member
The Saskatchewan Association of School Business Officials

## Commission Goals

- Provide customer-oriented communications and service: The Commission is determined to identify, assess, and implement opportunities where appropriate that add value to the communication and service provided to Plan members.
- Maintain the financial integrity of the Plan: The Commission is committed to achieving the needs of Plan members and employers through affordable, sustainable Plan benefits and services.
- Plan governance: The Commission strives to demonstrate leading practices of pension plan governance.
- Accountability: Performance of the Plan and the Commission's service providers is managed, measured and reported.

## Commission Values

- Accountability: We are accountable to the members and the stakeholders of MEPP for our administration of the Plan. We operate in a transparent manner.
- Professionalism: We strive for excellence in our administration of MEPP by being diligent and making informed decisions.
- Integrity: As trustees of the Municipal Employees' Pension Fund, we hold ourselves to the highest standards of integrity. We strive to act always with honesty and in a manner worthy of the trust our members have placed in us.
- Fairness: We administer MEPP in the best interests of all members of the Plan. We strive to ensure that our decisions are equitable for all Plan members by adhering to decision making that is fair and open-minded. Our actions are courteous, considerate and responsive.

## Attendance

The Commission met nine times in 2012. Table 1.1 shows the number of meetings each Commission member attended.

| Name | Number of Meetings Attended |
|---|---|
| Earl Braun | 9 |
| Rory Griffith | 8 |
| Allan Johnson | 9 |
| Don McCallum | 4 |
| Betty Moleski | 9 |
| Ray Orb | 6 |
| Bonnie Ozirny | 7 |
| Orrin Redden | 7 |
| Ray Sass | 9 |
| Roland Zimmer | 9 |

Table 1.1

## Education

The Commission has an education program for Commission members. The purpose of the program is to ensure the Commission members possess a sound knowledge and understanding of pension-related issues. The Commission budgets $5,000 per year for each Commission member for registration fees.

Upon appointment to the Commission, new members receive an orientation presentation conducted by the Public Employees Benefits Agency (PEBA), and supporting documentation concerning the Commission's meeting and governance process. Each member also meets with the Commission's Executive Secretary regarding the Commission materials and meeting processes. During their orientation period, new members are also assigned a mentor who is available to answer questions and provide guidance as required.

Commission members are required to attend a formal education program. The program provides a list of courses and seminars that deliver content specific to investment-related, funding-related and governance-related information, including:

- Within six months of appointment to the Commission, members must complete courses on basic investment knowledge facilitated by the Commission's administrator.
- Within one year, members must complete a course on pension investment management and attend an education session on basic actuarial principles.
- Within two years, members must complete a course on basic trustee development.
- Within three years, members must complete a course in advanced trustee development.

Commission members who have completed the formal education program are also required to attend one educational event annually that is facilitated by an industry-recognized pension and benefits organization. A Commission member who is actively pursuing the formal education program is exempt from the ongoing developmental requirements for members. However, all members are strongly encouraged to attend an education event.

Table 1.2 lists the education events attended by Commission members to December 31, 2012.

## Seminars, Courses and Other Events Attended by Commission Members in 2012

| Commission Member | Educational Events Attended | | Registration Fees (Total) |
|---|---|---|---|
| Earl Braun<br>Appointed September 2006 | **Formal Education Program**<br>Completed in 2007 | **Ongoing Education**<br>Annual Pension Information Session<br>ATMS Part IV<br>B.C. Public Sector Pension Conference<br>CFA Forecast | $1,720 |
| Roland Zimmer<br>Appointed September 2006 | **Formal Education Program**<br>Completed in 2008 | **Ongoing Education**<br>Annual Pension Information Session<br>Canadian Pension Benefits Institute Forum<br>Canadian Pension Benefits Institute Regional Conference<br>Canadian Public Sector Pensions and Benefits Conference<br>Governance Essentials | $2,180 |
| Rory Griffith<br>Appointed October 2011 | **Formal Education Program**<br>ATMS Part I<br>ATMS Part II<br>Investment Basics | **Ongoing Education**<br>Annual Pension Information Session | $2,440 |
| Allan Johnson<br>Appointed September 2005 | **Formal Education Program**<br>Completed in 2007 | **Ongoing Education**<br>Annual Pension Information Session<br>Association of Canadian Pension Management Conference<br>Benefit Communication & Technology Institute Conference<br>Canadian Pension Benefits Institute Luncheon<br>Canadian Pension Benefits Institute Forum<br>Canadian Employees Benefits Conference<br>Deloitte Broadcast<br>Deloitte Presentation: Beyond Compliance | $4,112 |

| | | | |
|---|---|---|---|
| Donald McCallum<br>Appointed September 2011 | **Formal Education Program**<br>Basic Actuarial Principles | **Ongoing Education**<br>No events attended | - |
| Betty Moleski<br>Appointed December 2007 | **Formal Education Program**<br>ATMS Part I | **Ongoing Education**<br>Annual Pension Information Session<br>Canadian Investment Institute Conference | $2,600<br>- |
| Ray Orb<br>Appointed September 2011 | **Formal Education Program**<br>Humber College Basic Trustee Program<br>Mercer School of Pension Investment Management | **Ongoing Education**<br>No events attended | $4,395 |
| Bonnie Ozirny<br>Appointed March 2006 | **Formal Education Program**<br>Completed in 2007 | **Ongoing Education**<br>Annual Pension Information Session<br>ATMS Part I<br>Canadian Employees Benefits Conference<br>Canadian Pension Benefits Institute Forum<br>Canadian Investment Institute Conference<br>Deloitte Presentation: Beyond Compliance | $3,995 |
| Orrin Redden<br>Appointed September 2005 | **Formal Education Program**<br>Completed in 2008 | **Ongoing Education**<br>Annual Pension Information Session | - |
| Ray Sass<br>Appointed March 2010 | **Formal Education Program**<br>No events attended | **Ongoing Education**<br>Annual Pension Information Session<br>Benefit Communication & Technology Institute Session<br>Board Games: Leadership and Boardroom Culture | $1,955 |
| | | **Total Expenditures** | **$23,397** |

Table 1.2

The Commission's formal education includes the Advanced Trustee Management Standards (ATMS) program, a four-part certificate program that is delivered by the International Foundation of Employee Benefit Plans. ATMS provides basic and advanced training in pension fund management and pension fund leadership for pension trustees.

Conferences attended by Commission members as part of their ongoing education provide the Commission with information on the current governance, investment and legal environment affecting pension plans. The conferences also provide opportunities for Commission members to meet with pension experts and pension trustees from other pension plans to discuss common pension issues.

## Contracted Services

The Commission is ultimately responsible for the Plan's administration, communication and investment activities. To discharge these responsibilities, the Commission uses the services of various organizations.

The Commission contracts with the Public Employees Benefits Agency (PEBA) to provide executive management and administrative services for the Plan. PEBA is part of the Ministry of Finance, Government of Saskatchewan, and administers a wide range of pension and benefits plans.

Under contract with the Commission, PEBA:

- maintains all member and accounting records;
- collects and deposits contributions to the Municipal Employees' Pension Fund (the Fund);
- transfers contributions to the custodian of the Fund for investment;
- monitors, administers and assists in the execution of the Plan's investment program in accordance with the investment policy;
- determines all questions of coverage, eligibility and methods of providing or arranging for the provision of benefits;
- calculates and pays all pension benefits;
- communicates with members and participating employers;
- recommends an actuary as an advisor to PEBA and the Commission, and retains an actuary selected on behalf of the Commission;
- makes interest rate calculation recommendations for the purposes of determining rates of interest to be allocated annually to members for the purposes of calculating any amounts payable into or out of the Fund; and
- prepares the annual report.

PEBA is responsible for ensuring that all transactions are made in accordance with *The Municipal Employees' Pension Act*, *The Pension Benefits Act, 1992*, and their related regulations.

The Commission retains RBC Investor Services Trust as the Plan custodian, Aon Hewitt as the Plan actuary, and Mercer (Canada) Limited as the investment consultant. The Commission also retains the investment managers listed in Table 1.10 on page 29 of this report.

**LEFT TO RIGHT:** Betty Moleski, Earl Braun, Wayne Steen, Ray Orb, Bonnie Ozirny, Rory Griffith, Orrin Redden, Randy Goulden, Allan Johnson

**NOT PICTURED:** Don McCallum

## Pension Payments

PEBA's service objectives are to ensure that all payments are made by their due dates and that all supplemental increases for pensioners are processed on a timely basis. PEBA met these objectives in 2012.

The number of member retirements in 2012 is shown in Table 1.3.

## Plan Membership

In 2012, Plan membership increased for active members and pensioners but decreased for inactive members as is shown in Table 1.4.

## Income Allocation

In 2012, the Commission allocated interest to members' accounts at the rate of 11.49% for the year.

## Supplemental Increases for Pensioners

No supplemental increases were applied in 2012

## Operating Expenditures

*Table 1.5* on page 15 shows plan operating expenditures for the year ended December 31, 2012.

| Retirement Comparisons | 2012 | 2011 |
|---|---|---|
| Normal Retirement | 56 | 57 |
| Early Retirement | 160 | 153 |
| Postponed Retirement | 24 | 44 |
| Temporary Retirement | 9 | 14 |
| **Total** | **249** | **268** |

Table 1.3

| Plan Member Comparisons | 2012 | 2011 |
|---|---|---|
| Active | 14,650 | 14,207 |
| Inactive | 3,516 | 3,799 |
| Pensioners | 4,588 | 4,478 |

Table 1.4

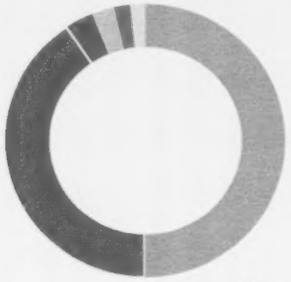
| Expenses (000s) | | |
|---|---|---|
| | Total Cost | (%) |
| Administration costs / Investment consultant fees | $4,894 | 44.86 |
| Custodial fees | 518 | 4.75 |
| Investment management fees | | |
| Global Infrastructure Partners - C, LP | 367 | 3.36 |
| Greystone Managed Investments Inc. | 880 | 8.07 |
| Foyston, Gordon & Payne Inc. | 442 | 4.05 |
| Brandes Investment Partners, LP | 682 | 6.25 |
| BlackRock Asset Management Canada Ltd. | 59 | 0.54 |
| Snyder Capital Management, LP | 552 | 5.06 |
| Pareto Investment Management Ltd. | 364 | 3.34 |
| Steel River Infrastructure Fund North America, LP | 248 | 2.27 |
| TDAM Fixed Income Overlay | 281 | 2.58 |
| Canso Investment Domestic Portfolio | 308 | 2.82 |
| PIMCO Investments Global Shadow A/C | 359 | 3.29 |
| Wellington Management Global Shadow | 814 | 7.46 |
| TD EAFE | 3 | 0.03 |
| GIP II | 139 | 1.27 |
| | **$10,910** | **100.0** |

Table 1.5

## Active Employers

At December 31, 2012, there were 733 employers participating in the Plan.

The distribution of employers by employment sector is shown in Figure 1.1.



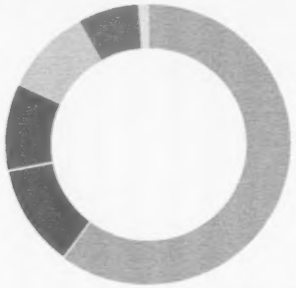
50.2% Towns and Villages (368)
40.4% Rural Municipalities (296)
3.4% School Divisions and Boards (25)
2.5% Other (18)
2.0% Regional Colleges & Libraries (15)
1.5% Cities (11)

Figure 1.1

## Active Members by Employer

The distribution of the Plan's active members by employer is shown in Figure 1.2.

The number of active members illustrated in Figure 1.2 differs from the total active members in Table 1.4 on page 14 because some members work for more than one employer.



60.0% School Divisions and Boards (9,095)
12.0% Rural Municipalities (1,796)
10.0% Towns and Villages (1,613)
10.0% Cities (1,434)
7.0% Regional Colleges & Libraries (989)
1.0% Other (159)

Figure 1.2

PEBA reports measurement against standards to the Commission quarterly. Table 1.6 and Table 1.7 provide measurement results for the 2012 year.

| PEBA Service Standards January 1, 2012 to December 31, 2012 | | | | |
|---|---|---|---|---|
| | Completed | Number that Meet or Exceeded Standard | % that Meet or Exceeded Standard | *Standard (Business Days) |
| Statement on Termination (Option Letter) | 1,509 | 1,434 | 95.0 | 30 |
| Statement on Death (Active/Deferred) (Option Letter) | 41 | 39 | 95.1 | 10 |
| Statement on Death (Pensioners) (Option Letter) | 129 | 119 | 92.2 | 10 |
| Payments (includes on termination and death) | 1,330 | 1,145 | 86.1 | 10 |
| Payment of New Retirements | 257 | 252 | 98.1 | 1 Month |
| Pension Estimates (Retirement Option Letter) | 417 | 405 | 97.1 | 15 |
| Marriage Breakdown Calculations | 40 | 39 | 97.5 | 15 |
| Purchase of Service | 25 | 24 | 96.0 | 30 |
| Portability Transfer Value | 16 | 13 | 81.3 | 30 |
| Total | 3,764 | 3,470 | 92.2 | |

Table 1.6

| PEBA Periodic Requirements January 1, 2012 to December 31, 2012 | | | | |
|---|---|---|---|---|
| | Completed | Number that Meet or Exceeded Standard | % that Meet or Exceeded Standard | *Standard (Business Days) |
| Annual Member Statement | 1 | 1 | 100.0 | 75 |
| Budget Variance Reporting | 4 | 4 | 100.0 | Quarterly |
| Proposed Annual Budget | 1 | 1 | 100.0 | Annually |
| Performance Measurement | 4 | 4 | 100.0 | Quarterly |
| Decisions Affecting Stakeholders | 0 | 0 | n/a | 1 Month |
| Newsletter (MEPP *Matters*) | 2 | 2 | 100.0 | Semi-annually |
| Total | 12 | 12 | 100 | |

Table 1.7

* Standard is set within the contract between the Commission and PEBA

In May 2011, the Commission reviewed and amended its three-year strategic business plan for the period 2011 to 2013.

The strategic business plan sets out goals for the planning period in four major categories:

Customer-oriented Communications and Service
The Commission is determined to identify, assess and, where appropriate, implement opportunities to add value to the services the Plan provides to its members.
Maintain the Financial Integrity of the Plan
The Commission is committed to achieving the needs of Plan members and employers through affordable, sustainable Plan benefits and services.
Plan Governance
The Commission strives to demonstrate leading practices of pension plan governance.
Accountability
Performance of the Plan and the Commission's service providers is measured, managed, and reported.

The strategic business plan was developed as part of the Commission's comprehensive governance process, which includes regular strategic business planning and risk management planning. It was developed within the context of the Plan's purpose, mission and goals, and the Commission's values of accountability, professionalism, integrity and fairness. The new strategic business plan considers a number of internal and external factors.

This annual report provides reporting for the strategic initiatives completed in 2012, other activities accomplished in 2012, and activities planned for implementation/completion in 2013 under the updated strategic plan.

## 1. Customer-oriented Communications and Service

The Commission's objectives:

- Support member understanding of the Plan, including individual member benefits and responsibilities.
- Provide relevant, timely and accurate information which is easy to understand.
- Support participating employers.
- Maintain an up-to-date suite of services that meet evolving member needs.

The Commission has a number of ongoing communication strategies that are designed to inform members and employers about the Plan, including:

- A stakeholder consultation process.
- Plan overview presentations for employers and employees.
- Plan member retirement workshops.
- Print materials that include the MEPP *Matters* newsletter, the MEPP *Member Booklet*, the MEPP *In-Depth* publications for specific Plan issues, and the quarterly MEPP *Employer Bulletin*. These materials are available on the Plan's website.
- The MORe retirement planner available on the Plan website.

### Activities planned and accomplished in 2012

*Communicate the value of the Plan*

A content review of the website began in the fall, and progress has been made on removing duplicate information across the website and identifying enhancements to create a more user-friendly online experience.

*Add web-based, video-based information to the Plan website*

A video that explained the components of the annual member statement was posted on the Plan website in February to coincide with the mailing of the Plan member statements.

*Augment* RetireWithEase *presentations to address low levels of financial and Plan literacy*

Materials specifically for MEPP members that help them to understand the value of their pension and the role it plays in attaining their overall retirement objectives were developed and delivered throughout 2012.

*Enhance member statements to include personalized information*

Enhanced member information was incorporated in the annual member statements, which were mailed to members in February. Each member received a statement that included information unique to the member.

*Expand uses for the Employer Remittance System*

A system is being developed to provide enhanced online tools for enrolling Plan members and updating Plan member information. A final cost quote has been obtained to develop these tools for the Employer Remittance System.

*Electronic media*

An assessment was completed in August to determine areas where electronic media could replace print media, including newsletters and member statements. A system is being developed to provide e-mail communications to members who prefer to receive their pension information electronically.

## Activities planned for 2013

*Communicate the value of the Plan*

Continue to update and create content for the Plan website.

*Expand uses for the Employer Remittance System*

Finalize the requirements for the system and commence the development and implementation of system enhancements.

*Electronic media*

Provide online registration for Plan members who wish to receive member newsletters electronically. Investigation will continue to determine the appropriateness of providing electronic statements to members who wish to receive their statements electronically.

## 2. Maintain the Financial Integrity of the Plan

The Commission's objectives:

- Maintain Plan funding that will be able to pay promised benefits in full as they come due while keeping contribution rates stable over the long term.
- Ensure Plan design includes benefits that meet the needs of all stakeholders.
- Identify, assess and manage the Plan's financial risks.

The Commission has implemented a funding policy that monitors the ability of the Plan to pay benefits on a fully-funded basis. The policy includes established target ranges that the Commission uses to make decisions concerning plan contributions and benefit levels.

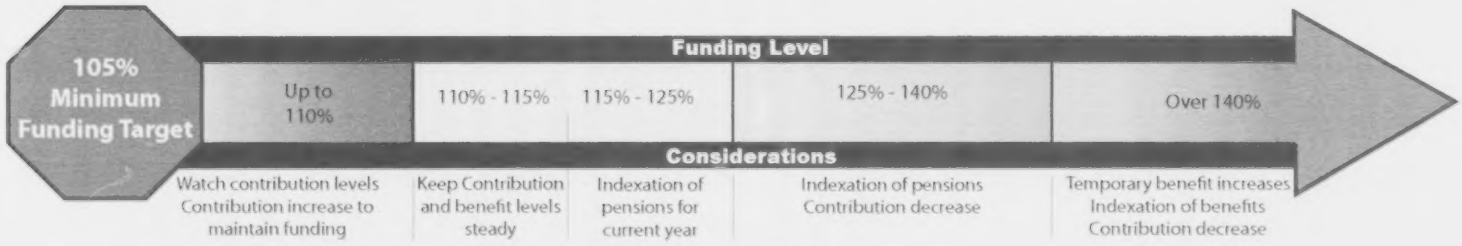
### Activities planned and accomplished in 2012

*The Commission will conduct a plan design study that will form the basis for consultations with the Plan's stakeholders.*

At the Commission's strategic planning session in September, the Commission approved a six-step process developed by its actuary to review the plan design. The Commission has commenced a review of Plan provisions to determine if current benefits are effectively meeting the needs of members related to their retirement objectives.

### Activities planned for 2013

*The Commission will conclude a plan design study that will form the basis for consultations with the Plan's stakeholders – this will determine whether or not changes in legislation are required.*



## 3. Plan Governance

The Commission's objectives:

- The Commission demonstrates that it is a responsible fiduciary.
- Ensure the Plan's business model, including roles and responsibilities of both the Commission and the contracted service providers, is consistent with the Plan's strategy and operations.

The Commission employs various tools to achieve its objectives, including:

- The Commission's member orientation program and its formal and ongoing educational program.
- A comprehensive Governance Manual.
- The development of a Policy Manual.
- The establishment of service standards with the Plan's administrator.

### Activities planned and accomplished in 2012

*An enhanced early stage orientation program for Commission members.*

The Commission approved the inclusion in its Governance Manual of an enhanced orientation program for new Commission members that provides additional financial literacy, and Plan-specific, Commission-specific, and governance-focused content.

*The Commission is to commence formal evaluation of the provision of executive management services by its plan administrator.*

The Commission received the results of the evaluation of the Public Employees Benefits Agency's provision of executive management services at their March meeting.

*The comprehensive review of Commission's Governance Manual.*

The Commission approved changes to its Governance Manual in November. Notable amendments included:

- The restructuring of the manual to include a policy section on Roles and Mandate, and a policy section on Governance;
- Streamlining information by removing sections from the manual that were not relevant to the governance process and were more informational and administrative in nature;
- The addition of a Private Equity Investment Committee; and
- The addition of governance policies that were transferred from the Commission's Policy Manual.

### Activities planned for 2013

*The Commission will continue to conduct a formal evaluation of the provision of executive management services by its plan administrator.*

## 4. Accountability

The Commission's objectives:

- Understand stakeholder and member information requirements and provide them with information regarding the Plan's strategy, operations and values.
- Provide relevant and timely reporting on the performance of the Plan, the Commission and service providers.

The Commission demonstrates its accountability to the Plan's members and employers through:

- Annual self-assessments completed by the Commission.
- The development, implementation and review of the Commission's Strategic Business Plan.

### Activities planned and accomplished in 2012

*Enhanced reporting of Educational Activities undertaken by Commission members.*

The 2011 Annual Report included a new section detailing the Commission's education program and the educational activities they attended.

*Enhanced performance reporting for the Plan, the Commission and service providers.*

The Commission approved the framework for enhanced performance reporting at its April meeting.

### Activities planned for 2013

*The Commission will receive proposed measures for the enhanced reporting tool. If the proposed measures are approved, the implementation of enhanced performance reporting for the Plan, the Commission and service providers will commence in late 2013.*

Within its mandate, the Commission is responsible for managing risks that could affect the operation of the pension plan, the Plan's members and other stakeholders. The risk management process provides the Commission and its administrator with the means to identify and evaluate the foreseeable risks in the Plan. Supporting strategies are developed to manage or mitigate these risks.

The Risk Management Plan and its annual review ensure that a regular, documented process is in place that provides rationale for the Commission's risk management decisions. To assist in the identification and assessment of all foreseeable risks in the Plan, the Commission has identified the following key broad-based risks of the Plan:

Strategic Risk encompasses the potential risks related to communication and service delivery, plan design suitability, plan reputation, plan governance and accountability.

**Financial Risk** relates to the investment, funding, and benefit policies, plan design costs, and demographic considerations.

**Regulatory Risk** is associated with non-compliance with legislation, fiduciary obligations and the legal requirements of pension plan management.

**Operational Risk** includes operational emergencies and non-compliance with governance policies.

The Commission has developed strategies to manage the identified risks. Table 1.8 summarizes the risks and strategies to mitigate these risks.

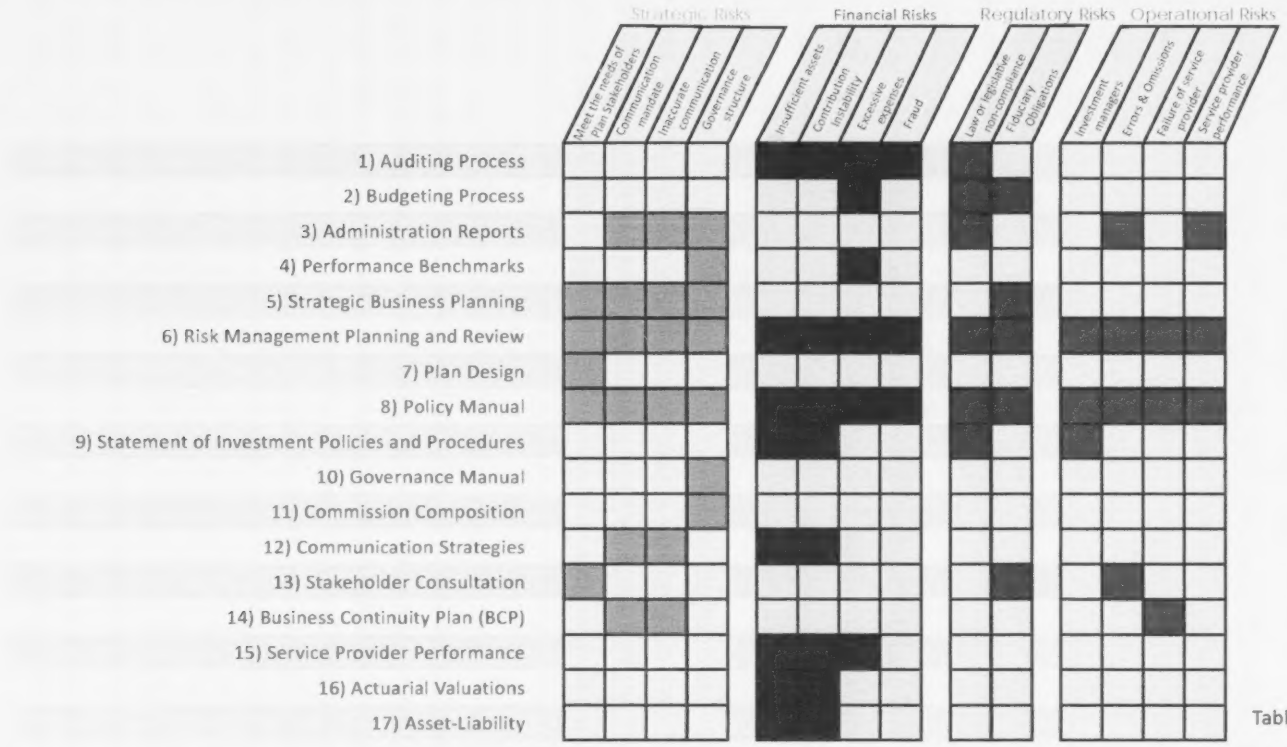



Table 1.8

The foreseeable risks identified under each of these key broad-based risk categories are reviewed annually. This annual review is designed to identify potential events and trends that may positively or negatively affect the Commission's ability to achieve its strategic goals or maintain its operations. The Strategic Plan, as reviewed and updated from time-to-time, provides the Commission with an external and internal environmental scan to support this annual risk management review.

### Activities planned and accomplished in 2012

*The Commission's Strategic Business Plan contains initiatives that relate directly to the assessment of Plan provisions to ensure they meet the needs of Plan members. The Commission will conduct a plan design study that will provide the basis for whether or not to recommend changes in legislation to Cabinet.*

Starting in 2012, the Commission began working with its plan administrator, PEBA, and its actuary, Aon Hewitt, on a six-step process to assess the appropriateness of the current Plan design. The assessment will provide the basis for whether or not the Commission will recommend changes in legislation to Cabinet.

*The Commission's Strategic Business Plan contains initiatives that relate directly to the management of communication risks. These initiatives include the implementation of value messaging on documents for pensioners and a value message tool for employers, the development of materials that help members understand the value of their pension and the role it plays in the overall attainment of their retirement objectives, the provision of pension information that is unique to the member's situation on the member statement, and the provision of online tools to assist employers with enrolment of Plan members and updates to Plan member information.*

- A content review of the website began in the fall, and progress has been made on removing duplicate information across the website and identifying enhancements to create a more user-friendly online experience.
- A video that explained the components of the annual member statement was posted on the Plan website in February to coincide with the mailing of the Plan member statements.
- Materials specifically for MEPP members to help them to understand the value of their pension and the role it plays in attaining their overall retirement objectives were developed and delivered throughout 2012.
- Enhanced member information was incorporated in the annual member statements, which were mailed to members in February. Each member received a statement that included information unique to the member.
- A system is being developed to provide enhanced online tools for enrolling Plan members and updating Plan member information for the Employer Remittance System.
- A vendor developed an email communications system for members who prefer to receive their pension information electronically rather than receiving it in print.

*The Commission will commence using an evaluation tool and metrics to evaluate executive management services.*

The Commission received the results of the evaluation of executive management services at its March meeting.

*A risk management review will be conducted to create a more robust risk management structure.*

A risk management assessment was conducted in November that resulted in the quantification of a number of key risks to the Plan and the development of incremental strategies to manage these risks.

## Activities Planned for 2013

*The Commission will continue to work with its administrator and actuary on the review of the current Plan design for MEPP and the potential options for future plan design to determine if changes in legislation are required.*

*The Commission will conduct an evaluation of executive management services for 2012 in the first quarter of 2013.*

*The Commission will initiate an enhanced risk management process to monitor risks to the Plan.*

*The Commission will conduct a review to confirm that all of its service providers maintain a Business Continuity Plan.*

“ the Commission will continue to be diligent in governing the Plan, being responsive to its members, and making informed decisions ”

MEPP Member
Saskatchewan Urban Municipalities Association

MEPP Member
Saskatchewan Urban Municipalities Association

## Trustees

As trustees of the Fund, the Commission is responsible for prudently investing the Fund's assets.

## Investment Policy

In fulfilling its responsibility to prudently invest the Fund's assets, the Commission has adopted an investment policy for the Plan. This policy is set out in the Statement of Investment Policies and Procedures (SIP&P), which the Commission reviews annually.

The SIP&P contains guidelines for investment of Plan assets, and includes:

- investment and risk philosophy;
- asset mix and diversification policy, including portfolio return expectations;
- benchmarks for each investment manager and for the Fund;
- permitted investments and quality guidelines;
- monitoring and control responsibilities, including performance targets;
- compliance reporting and monitoring requirements; and
- conflict of interest guidelines.

## Investment Consultant

The Plan's investment consultant is Mercer (Canada) Ltd. In 2012, the investment consultant provided strategic investment guidance, performance monitoring, regular and special project investment consulting, and reports to the Commission. The Commission paid consulting fees of $578,700 in 2012.

| Fees Paid for Investment Services in 2012 | |
|---|---|
| Investment Managers (total) | $5,498,000 |
| Investment Consultant | 578,000 |
| Custodian | 518,000 |
| **Total** | **$6,594,000** |

Table 1.9

## Investment Managers

The Commission delegates responsibility for investing the Fund assets to professional investment managers. Each manager invests within a specific mandate, as outlined in *Table 1.10*. Investment managers were paid a total of $5,498,000 in 2012.

Investments by Investment Manager

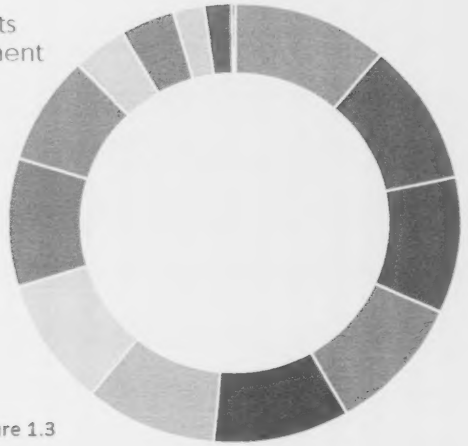


Figure 1.3

| | |
|---|---|
| 11.3% | TD Asset Management, Inc. |
| 10.4% | Greystone Managed Investments Inc |
| 10.1% | Foyston Gordon & Payne, LP |
| 9.9% | CGOV Asset Management |
| 9.7% | BlackRock Asset Management Canada Ltd. |
| 9.6% | Canso Investment Counsel Ltd. |
| 9.4% | Wellington Management Company, LLP |
| 9.3% | PIMCO Canada Corp. |
| 8.0% | Brandes Investment Partners Fund |
| 4.1% | Snyder Capital Management Inc. |
| 3.9% | Hansberger Global Investors, Inc. |
| 2.2% | Global Infrastructure Partners Fund |
| 2.0% | Steel River Infrastructure Fund North American, LP |
| 0.1% | Pareto Investment Management Ltd. |

| Investment Manager Mandates | |
|---|---|
| Investment Manager | Mandate |
| Steel River Infrastructure Fund North America, LP | Infrastructure |
| BlackRock Asset Management Canada Ltd. | U.S. Equities |
| Brandes Investment Partners, LP | Non-North American Equities |
| Foyston, Gordon & Payne Inc. | Canadian Equities |
| Global Infrastructure Partners Fund | Infrastructure |
| Greystone Managed Investments Inc. | Real Estate, U.S. Equities |
| Hansberger Global Investors, Inc. | Non-North American Equities |
| Pareto Investment Management Ltd. | Currency |
| Snyder Capital Management, LP | U.S. Equities |
| Wellington Management Company, LLP | Long Bonds Plus |
| TD Asset Management, Inc. | Non-North American Equities, Bond Overlay |
| Canso Investment Counsel Ltd. | Corporate Bonds |
| PIMCO Canada Corp. | Core Plus Bonds |
| CGOV Asset Management | Canadian Equities |

Table 1.10

### Custodian

The Commission retains RBC Investor Services Trust as the custodian of the Plan. The custodian is responsible for:

- safekeeping of assets;
- collection of income;
- settlement of investment transactions; and
- recording and verifying investment transactions.

RBC Dexia received $518,000 in fees in 2012.

## Investment Objectives

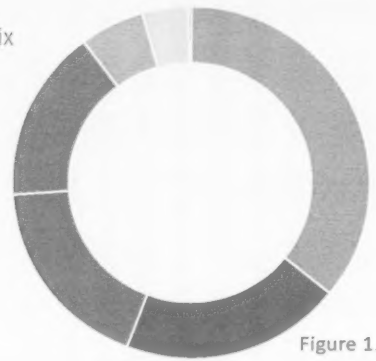
### Total Fund

The Fund's primary objective is to grow at a rate which exceeds the growth of the Plan's liabilities. To measure the growth of the Plan's liabilities, a fixed income portfolio that approximates its going-cornern pension liabilities behaviour (the liability benchmark) has been established.

To achieve its goal, the Commission has established:

- a long-term strategic asset mix that is reflected by the Plan's benchmark (a standard against which performance is measured); and,
- an investment management structure consisting of one or more investment managers in each major asset class.

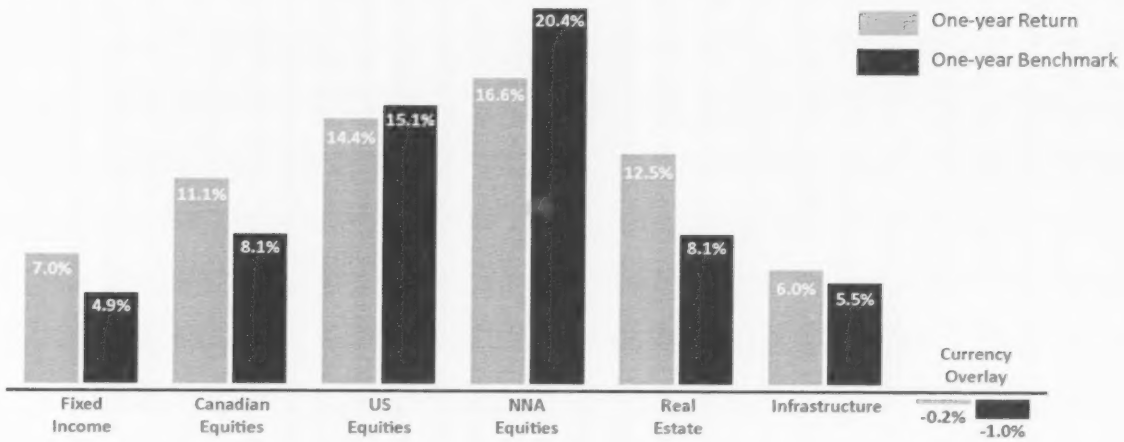
MEPP Asset Mix

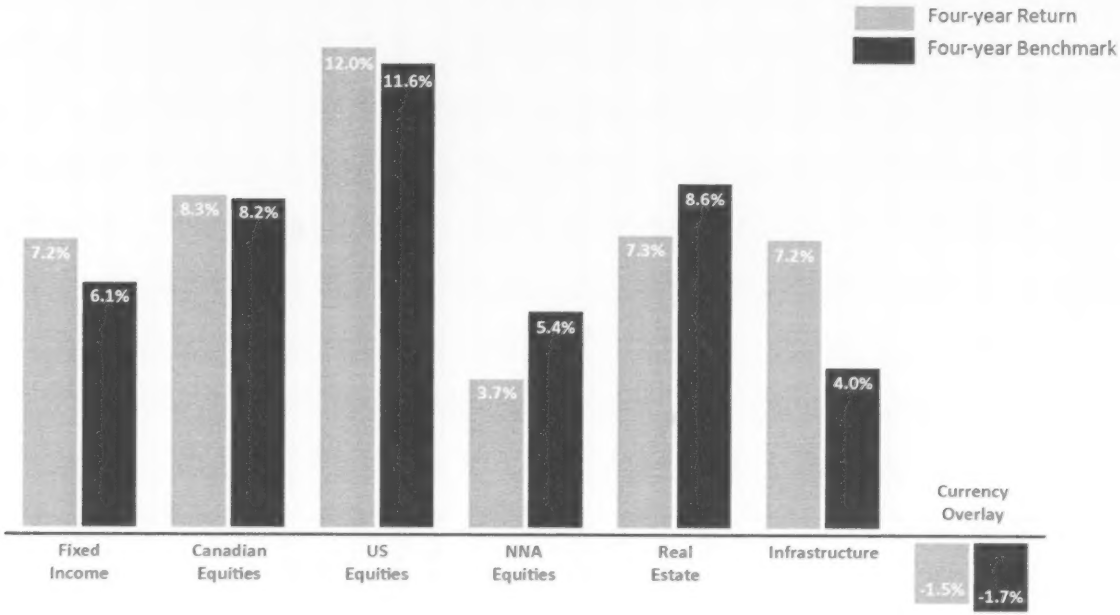


| | |
|---|---|
| 35.9% | Fixed Income |
| 20.0% | Canadian Equities |
| 18.2% | U.S. Equities |
| 15.7% | Non-North American Equities |
| 5.9% | Real Estate |
| 4.2% | Infrastructure |
| 0.1% | Cash Currency Forward |

Figure 1.4

## Performance by Asset Class



To the Members of the Legislative Assembly of Saskatchewan:

Administration of the Municipal Employees' Pension Plan is presently assigned to the Public Employees Benefits Agency of the Ministry of Finance. Management is responsible for financial administration, administration of funds and managing of assets.

The financial statements which follow have been prepared by management in conformity with Canadian generally accepted accounting principles. Management uses internal controls and exercises its best judgment in order that the financial statements fairly reflect the financial position of the Plan.

The Municipal Employees' Pension Commission reviews and approves the financial statements. In doing so, the Commission has had the opportunity to discuss the statements with management throughout the year.

The provision for annuity benefits and the accrued pension benefits are determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events and require approval by management.

The financial statements have been audited by Deloitte LLP whose report follows.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

Regina, Saskatchewan
March 15, 2013

Aon Hewitt was retained by the Municipal Employees' Pension Commission (the "Commission") to perform an actuarial valuation of the assets and liabilities of the Municipal Employees' Pension Plan (the "Plan") as at December 31, 2011. The Commission retained Aon Hewitt to prepare an extrapolation of the Plan's liabilities from December 31, 2011 to December 31, 2012. This extrapolation was used to prepare the actuarial information for inclusion in the Annual Report for the year ended December 31, 2012.

The extrapolation of the Plan's liabilities to December 31, 2012 was based on:

- An actuarial valuation (based on membership data provided by the Public Employees Benefits Agency (PEBA)) as at December 31, 2011;
- Asset data provided by PEBA as at December 31, 2012;
- Methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- Assumptions about future events (economic and demographic) were developed by the Commission and PEBA, with assistance from Aon Hewitt, and are considered as management's best estimate of these events.

While the actuarial assumptions used to determine the liabilities for the Plan's financial statements contained in the Annual Report represent management's best estimate of future events, and while in my opinion these assumptions are not unreasonable, the Plan's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plan.

The data has been tested for reasonableness and consistency with the December 31, 2011 management valuation report prepared by the previous actuary, and in my opinion the data is sufficient and reliable for the purposes of the valuation and extrapolation. It is also my opinion that the methods employed in the valuation and extrapolation and the assumptions used are, in aggregate, appropriate. My opinions have been given, and the valuation and extrapolation has been performed in accordance with accepted actuarial practice.

David R. Larsen
Fellow, Canadian Institute of Actuaries
Fellow, Society of Actuaries

February 5, 2013

“ the Commission remains dedicated to manage the Plan in the best interest of its members ”

MEPP Member
Saskatchewan Association of Rural Municipalities

MEPP Member
Saskatchewan Urban Municipalities Association

# Municipal Employees' Pension Commission

## Municipal Employees' Pension Plan

### Financial Statements

Year ended December 31, 2012

# Deloitte.

To the Members of the Legislative Assembly of Saskatchewan:

We have audited the accompanying financial statements of the Municipal Employees' Pension Plan, which comprise the statement of financial position as at December 31, 2012, and the statement of changes in net assets available for benefits and the statement of changes in pension obligations and provision for annuity obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Municipal Employees' Pension Plan as at December 31, 2012, and the changes in its net assets available for benefits and changes in its pension obligations and annuity obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Deloitte LLP

Chartered Accountants
March 15, 2013
Regina, Saskatchewan

Municipal Employees' Pension Plan
Statement of Financial Position

Statement 1

(in thousands)

| | December 31, 2012 | | | December 31, 2011 |
|---|---|---|---|---|
| | Defined Benefit | Retirement Annuities | Total | Total |
| **ASSETS** | | | | |
| Investments (Note 4) | | | | |
| Short term | $ 35,622 | $ 511 | $ 36,133 | $ 46,742 |
| Bonds | 454,486 | 6,517 | 461,003 | 357,631 |
| Equities | 348,621 | 4,999 | 353,620 | 292,039 |
| Infrastructure | 79,980 | 1,170 | 81,150 | 59,628 |
| Pooled funds | 476,819 | 6,837 | 483,656 | 454,931 |
| Investments under securities lending program | 127,710 | 1,831 | 129,541 | 169,879 |
| | 1,523,238 | 21,865 | 1,545,103 | 1,380,850 |
| Accounts receivable | | | | |
| Employees' contributions | 2,459 | - | 2,459 | 2,293 |
| Employers' contributions | 2,459 | - | 2,459 | 2,293 |
| Accrued investment income | 4,522 | 65 | 4,587 | 4,047 |
| Other receivables | 2,214 | 32 | 2,246 | 699 |
| | 11,654 | 97 | 11,751 | 9,332 |
| Due from General Revenue Fund (Note 6) | 2,760 | 40 | 2,800 | 3,918 |
| Cash | 18,615 | 267 | 18,882 | 1,009 |
| Total assets | 1,556,267 | 22,269 | 1,578,536 | 1,395,109 |
| **LIABILITIES** | | | | |
| Accounts payable | 4,466 | 64 | 4,530 | 2,886 |
| Provision for annuity obligations (Statement 3, Note 10) | - | 21,521 | 21,521 | 25,292 |
| Total liabilities | 4,466 | 21,585 | 26,051 | 28,178 |
| NET ASSETS AVAILABLE FOR BENEFITS (Statement 2) | 1,551,801 | 684 | 1,552,485 | 1,366,931 |
| Pension Obligations (Statement 3, Note 9) | 1,394,268 | - | 1,394,268 | 1,599,687 |
| SURPLUS (DEFICIT) | $157,533 | $ 684 | $158,217 | $ (232,756) |

(See accompanying notes to the financial statements)

Municipal Employees' Pension Plan
Statement of Changes in Net Assets Available for Benefits

Statement 2

(in thousands)

| Year Ended December 31 | 2012 Defined Benefit | 2012 Retirement Annuities | 2012 Total | 2011 Total |
|---|---|---|---|---|
| **INCREASE IN ASSETS** | | | | |
| Investment income | | | | |
| Interest | $18,018 | $276 | $18,294 | $15,118 |
| Security lending | 110 | 2 | 112 | 54 |
| Pooled funds | 10,788 | 165 | 10,953 | 10,716 |
| Dividends | 11,605 | 177 | 11,782 | 12,783 |
| Infrastructure | 6,839 | 104 | 6,943 | 1,062 |
| | 47,360 | 724 | 48,084 | 39,733 |
| Change in fair value of investments | 158,680 | 2,422 | 161,102 | (33,366) |
| Contributions | | | | |
| Employee contributions | 36,778 | - | 36,778 | 34,966 |
| Employer contributions | 36,787 | - | 36,787 | 34,904 |
| Reciprocal transfers in | 833 | - | 833 | 923 |
| Arrears contributions and interest | 322 | - | 322 | 149 |
| Inter-fund transfer | (36) | 36 | - | - |
| | 74,684 | 36 | 74,720 | 70,942 |
| Net decrease in provision for annuity benefits (Statement 3, Note 10) | - | 3,771 | 3,771 | 294 |
| Total increase in assets | 280,724 | 6,953 | 287,677 | 77,603 |
| **DECREASE IN ASSETS** | | | | |
| Transfers and refunds (Note 8) | 25,592 | - | 25,592 | 16,614 |
| Benefit payments (Note 8) | 7,519 | - | 7,519 | 7,031 |
| Pension obligation payments | 48,081 | - | 48,081 | 44,925 |
| Annuities | - | 3,330 | 3,330 | 3,536 |
| Investment transaction costs | 6,591 | 100 | 6,691 | 309 |
| Administrative expenses (Note 12) | 10,757 | 153 | 10,910 | 9,718 |
| Total decrease in assets | 98,540 | 3,583 | 102,123 | 82,133 |
| INCREASE (DECREASE) IN NET ASSETS | 182,184 | 3,370 | 185,554 | (4,530) |
| NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR | 1,369,617 | (2,686) | $1,366,931 | 1,371,461 |
| NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR | $1,551,801 | $684 | $1,552,485 | $1,366,931 |

(See accompanying notes to the financial statements)

Municipal Employees' Pension Plan
Statement of Changes in Pension Obligations and Provision For Annuity Obligations

Statement 3

| Year Ended December 31 | (in thousands) 2012 | 2011 |
|---|---|---|
| PENSION OBLIGATIONS, BEGINNING OF YEAR | $1,599,687 | $1,353,314 |
| Increase in pension obligations | | |
| Interest on pension obligations | 80,227 | 77,953 |
| Pension obligations accrued | 90,105 | 72,529 |
| Transfers-in | 833 | 923 |
| Change in assumptions | - | 169,461 |
| | 171,165 | 320,866 |
| Decrease in pension obligations | | |
| Transfers, refunds and defined pension obligations paid | 81,192 | 68,570 |
| Experience gain | 28,201 | 5,838 |
| Transfer to provision for annuities | 36 | 85 |
| Change in assumptions | 267,155 | - |
| | 376,584 | 74,493 |
| PENSION OBLIGATIONS, END OF YEAR (Note 9) | $1,394,268 | $1,599,687 |

| | | |
|---|---|---|
| PROVISION FOR ANNUITY OBLIGATIONS, BEGINNING OF YEAR | $25,292 | $25,586 |
| Increase in provision for annuity obligations | | |
| Interest on annuity obligations | 1,182 | 1,372 |
| New annuities purchased | 36 | 85 |
| Change in assumptions | - | 1,105 |
| Experience loss | 270 | 680 |
| | 1,488 | 3,242 |
| Decrease in provision for annuity obligations | | |
| Annuities paid | 3,330 | 3,536 |
| Change in assumptions | 1,929 | - |
| | 5,259 | 3,536 |
| PROVISION FOR ANNUITY OBLIGATIONS, END OF YEAR (Note 10) | $21,521 | $25,292 |

(See accompanying notes to the financial statements)

## 1. Description of the Municipal Employees' Pension Plan

### General

The Municipal Employees' Pension Plan (the "Plan") which is domiciled in Regina, Saskatchewan, is comprised of three components: defined benefit, defined contribution benefit and retirement annuities. The following description of the Plan is a summary only. For more complete information, reference should be made to *The Municipal Employees' Pension Act*.

*The Municipal Employees' Pension Act* (the "Act") provides authority for the Plan. The Act directs that all allowances, payments and refunds under the Act shall be payable out of the Plan in the manner provided in the Act together with all benefits granted under a former Act. The Municipal Employees' Pension Commission (the "Commission") is responsible for holding in trust and investing the monies of the Plan. The Commission's composition and authority to administer the Plan are provided in Section 7 of the Act.

The Plan is registered under *The Pension Benefits Act, 1992* and is required to provide valuations every three years as to whether the Plan has sufficient assets to meet its pension obligations on an on-going basis as well as on a hypothetical wind-up basis. These valuations are filed with the Superintendent of Pensions (the "Superintendent"). If the Plan has insufficient assets, the Act outlines the steps to address the shortfall of assets. The Commission filed its December 31, 2010 valuations with the Superintendent. The fund is required to obtain the next actuarial valuation as at December 31, 2013.

### Defined Benefit Component

The Defined Benefit Component became effective July 1, 1973. This Defined Benefit Component is mandatory for permanent employees and optional for some non-permanent employees.

A. Funding

Employee contributions are 7.4% of salary for general members and 10.2% for police officers and firefighters. Effective January 1, 2013, these rates will increase to 8.15% and 11.35% respectively. Employee contributions are matched by the employer. There are some employee contributions that are not matched by employers, these contributions consist of transfers from other plans and purchase of prior services.

B. Pensions

Employees receive a pension at age 65 for general members and at age 60 for police officers and firefighters, for each year and fractional year of contributory service in the Plan prior to retirement that is determined as:

For service earned before 1990 and service earned after 2000 but before 2006, the number of years of contributory service during these periods times the greater of:

a) 1.8% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (2% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

For all other service, the number of years of contributory service for the period times the greater of:

a) 1.5% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

Members who commenced employment on or after January 1, 1993:

For service earned after 2000 but before 2006, the number of years of contributory service during this period times 1.8% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (2% for police officers and firefighters).

For all other service, the number of years of contributory service for the period times 1.5% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7% for police officers and firefighters).

C. Retirement

Normal retirement is at age 65 for general members and age 60 for police officers and firefighters. Members may retire earlier under certain conditions.

The Plan also provides benefits in the event of termination of employment, death or disability.

D. Surplus

Any surpluses arising in the Plan can be utilized at the discretion of the Commission.

E. Transfers

Subject to lock in provisions of the Plan, transfer of a member's commuted value is payable when a member ceases to be employed.

As the December 31, 2010 actuarial valuation for filing purposes stated a solvency ratio of 95.3%, commuted value transfers out of the Plan are limited to 95.3%. Payment of the remaining transfer deficiency shall occur over the following five-year period.

**Defined Contribution Component**

The Defined Contribution Component consists of members who made contributions to the Defined Contribution Component in effect prior to July 1, 1973. Members may retire and purchase an annuity at age 65. Members may retire earlier under certain conditions. Upon retirement a member can purchase an annuity from either the Plan or a private insurer based on employee and employer contributions together with the interest thereon. In the event of death prior to retirement, the member's spouse may receive a life annuity or elect to receive a lump-sum payment of employee and employer contributions plus interest. If the member's beneficiary is other than the spouse, a lump-sum payment of employee and employer contributions plus interest is made.

The liability associated with the Defined Contribution Component is included in pension obligations and totals $36 thousand.

**Retirement Annuities Component**

If a member elects to purchase an annuity through the Commission, an annuity contract is issued based on the member's balance, current interest rates and annuity tables.

The present value of these annuities is reflected as a liability of the Plan.

**Supplementary Benefits**

In accordance with the Act, the Commission may grant supplementary benefits to those members receiving pensions and annuities to compensate them for lost purchasing power. The Commission may grant the supplementary benefits as long as the solvency of the entire Plan is not impaired.

**Income Taxes**

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

## 2. Basis of Preparation

### a. Statement of Compliance

The financial statements for the year ended December 31, 2012 have been prepared in accordance with Canadian accounting standards for pension plans as defined in the Canadian Institute of Chartered Accountants (CICA) Handbook section 4600, *Pension Plans*. For matters not addressed in Section 4600, International Financial Reporting Standards (IFRSs) have been followed.

**b. Functional and Presentation Currency**

These financial statements are presented in Canadian Dollars, which is the Plan's functional currency, and are rounded to the nearest thousand unless otherwise noted.

## 3. Significant Accounting Policies

The significant accounting policies are as follows:

**a. Basis of Presentation**

The Plan has disclosed financial results for its Defined Benefit and Retirement Annuities components separately. The Plan maintains a single investment portfolio and assets were allocated to the retirement annuities component at January 1, 2002 based upon the provision for annuity obligations as at that date. Investment income is split so that it matches the rate of return and operating expenses and the change in fair value have been allocated relative to the assets. These financial statements were authorized and issued by the Commission on March 15, 2013.

**b. Investments**

Investments are stated at their fair value in the Statement of Financial Position. The change in the fair value of investments at the beginning and end of each year is reflected in the Statement of Changes in Net Assets Available for Benefits.

Fair value of investments is determined as follows:

Short-term investments are valued at cost which, together with accrued investment income, approximates fair value given the short-term nature of these investments. Included in short-term investments is $17.6 million (2011 - $1.7 million) in repurchase agreements, (see note 5), $818 thousand (2011 - $0) of swap collateral and $21 thousand (2011 - $0) in bond forwards which have maturity dates of less than one year.

Bonds and equities are valued at year-end quoted bid prices from recognized security dealers and accredited stock exchanges on which the security is principally traded.

Infrastructure investments are valued at market values supplied by the infrastructure investment manager. These market values are based on a year-end valuation of the underlying investments performed by the infrastructure investment manager.

Pooled fund investments are valued at the year-end unit value supplied by the pooled fund administrator, which represent the underlying net assets of the pooled fund at fair values determined using closing bid prices.

Investments in derivative financial instruments, including futures, repurchase agreements, forwards and option contracts, are valued at year end quoted market prices where available. Where quoted market prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the position.

Investment transactions are recorded on the trade date.

**c. Other Assets and Financial Liabilities**

Accounts receivable are classified as loans and receivables and accounts payable are classified as other financial liabilities and are measured at amortized cost. Due to their short-term nature, the amortized cost of these instruments approximates their fair value.

**d. Investment Income and Transaction Costs**

Investment income, which is recorded on the accrual basis, includes interest income, dividends, real estate operating income, pooled fund income, infrastructure income, and security lending income.

Brokers' commissions and other transaction costs are recognized in the statement of changes in net assets available for benefits in the period incurred.

**e. Foreign Currency Translation**

The fair values of foreign currency denominated investments included in the statement of Financial Position are translated into Canadian dollars at year-end rates of exchange. Gains and losses from translations are included in the change in fair value of investments.

Foreign currency-denomination transactions are translated into Canadian dollars at the rates of exchange on the trade dates of the related transactions. Realized gains and losses on the sale of investments are included in the change in fair value of investments.

**f. Provision for Annuity Obligations**

Provision for annuity obligations represents the present value of the retirement annuities underwritten by the Plan and is determined pursuant to an actuarial valuation or extrapolation. Any change in the liability pursuant to the valuation or extrapolation is recognized as an increase or decrease in that year's statement of changes in pension obligations and provision for annuity obligations.

**g. Use of Estimates**

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the recorded amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statement and the recorded amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the valuation of investments, the provision for annuity obligations and pension obligations. Actual results could differ from these estimates.

**h. Future Accounting Changes**

A number of new standards, amendments to standards and interpretations which become effective for annual periods beginning on or after January 1, 2015 and January 1, 2013 respectively, and which may have an impact on the Plan, include: IFRS 9, Financial Instruments; and IFRS 13, Fair Value Measurement. The extent of the impact on adoption of these standards is not known at this time, but is not expected to be material.

## 4. Investments

Details of significant terms and conditions, exposure to interest rate and credit risks of investments are as follows:

### Investments

The carrying values of the Plan's investments are as follows:

| | 2012 | 2011 |
|---|---|---|
| Short term | $ 36,133 | $ 46,742 |
| Bonds | 461,003 | 357,631 |
| Equities | 353,620 | 292,039 |
| Infrastructure | 81,150 | 59,628 |
| Pooled Funds | 483,656 | 454,931 |
| | $1,415,562 | $1,210,971 |
| **Investments under securities lending:** | | |
| Equities | $ 74,924 | $84,191 |
| Bonds | 54,617 | 85,688 |
| | $ 129,541 | $169,879 |
| | $1,545,103 | $1,380,850 |

### Security Lending Program

Through its custodian, the Plan participates in an investment security lending program for the purpose of generating fee income. Non-cash collateral of at least 105% of the market value of the loaned securities is retained by the Plan until the loaned securities have been returned (see Securities lending in note 11). The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

### Short Term Investments

These investments are comprised of treasury bills, notes, commercial paper, repurchase agreements and a short-term investment fund. Short-term investments held as of December 31, 2012 had effective interest rates of 0.9% to 1.9% (2011 - 0.8% to 1.9 %) and an average term to maturity of 143 days (2011 – 51 days). The Plan's investment policy states that investments must meet a minimum investment standard of "A2/P2" or equivalent rating as rated by a recognized bond rating service. Other than the Government of Canada, no single issuer represents more than 51.88% (2011 – 17.69%) of the total Plan's short-term investments.

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## Bonds

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized bond rating service unless otherwise permitted within a specific investment manager mandate. In addition, not more than 10% of its total bond market value may be invested in lower than BBB rated bonds. In 2012 there were 4.31% (2011 – 0%) invested in lower than BBB Bonds.

The market value, coupon rates and effective interest rate to maturity are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

**2012** (in thousands)

| Years to Maturity | Federal | Foreign Government | Provincial | Municipal | Corporate | Total Market Value | Coupon Rate | Effective Interest Rate |
|---|---|---|---|---|---|---|---|---|
| Under 5 | $ - | $ 2,742 | $ 263 | $ 657 | $ 76,987 | $ 80,649 | 1.25% - 8.25% | 2.67% |
| 5 to 10 | 22,543 | 5,671 | 48,442 | 148 | 61,623 | 138,427 | 0.49% - 11.04% | 5.67% |
| Over 10 | 56,968 | 3,602 | 146,027 | 9,198 | 80,749 | 296,544 | 0.00% - 9.38% | 8.95% |
| Market Value | $79,511 | $12,015 | $194,732 | $ 10,003 | $219,359 | $515,620 | | |

**2011** (in thousands)

| Years to Maturity | Federal | Foreign Government | Provincial | Municipal | Corporate | Total Market Value | Coupon Rate | Effective Interest Rate |
|---|---|---|---|---|---|---|---|---|
| Under 5 | $ - | $ - | $ - | $ - | $ 79,674 | $79,674 | 1.78% - 8.00% | 5.19% |
| 5 to 10 | - | - | - | - | 32,817 | 32,817 | 2.65% - 11.04% | 1.24% |
| Over 10 | 81,707 | - | 165,684 | 3,017 | 80,420 | 330,828 | 0.00% - 9.63% | 1.30% |
| Market Value | $81,707 | $ - | $165,684 | $3,017 | $192,911 | $443,319 | | |

The investment policy allows between 0% and 10% of the Plan to be invested in foreign bonds. As at December 31, 2012 the Plan held 0.78% (2011 – 0%) of the Plan's total investments in foreign bonds.

All foreign bonds are reported in Canadian dollars.

## Equities

The Plan's investment policy allows no one holding to represent more than 10% of the market value of the related portfolio and no one holding to represent more than 10% of the common stock in any corporation.

The investment policy allows between 26% and 47% of the Plan to be invested in foreign equities, including those held in pooled funds. As at December 31, 2012 the Plan held 8.21% (2011 – 8.51%) of the Plan's total investments in segregated foreign equities and 21.45% (2011 – 26.26%) of the Plan's total investments in pooled foreign equity funds. Foreign equities are comprised of 60.32% (2011 – 61.81%) in U.S. equities and 26.95% (2011 – 38.19%) in Non-North American equities.

All foreign equities are reported in Canadian dollars.

The Plan's equities have no fixed maturity date and are not exposed directly to interest rate risk. Dividends are generally declared on a quarterly basis. The average effective dividend rate is 2.86% (2011 – 3.25%).

**Infrastructure Investments**

Infrastructure investments are made through limited partnership arrangements. Advances are made to the limited partnerships, some of which are used to select and provide management support to the invested companies. The investments represent ownership in entities that invest in infrastructure assets.

The Plan's infrastructure investments consist of the following:

| | (in thousands) | |
|---|---|---|
| | **2012** | **2011** |
| SteelRiver | $ 34,358 | $ 25,682 |
| Global Infrastructure Partners | 40,921 | 33,946 |
| Global Infrastructure Partners II | 5,871 | - |
| | $ 81,150 | $ 59,628 |

The Plan's investment policy limits infrastructure investments to a maximum of 8% of the Plan's assets. As of December 31, 2012 the Plan's infrastructure investments were 5.25% (2011 – 4.32%) of the Plan investments.

SteelRiver is a limited partnership formed to invest in North American infrastructure projects. As at December 31, 2012 the Plan was committed to a further investment in this limited partnership of up to $5.6 million in U.S. funds.

Global Infrastructure Partners is a limited partnership formed to invest in worldwide infrastructure projects. As at December 31, 2012 the Plan was committed to a further investment in this limited partnership of up to $6.2 million in U.S. funds.

Global Infrastructure Partners II is a limited partnership formed to invest in worldwide infrastructure projects. As at December 31, 2012 the Plan was committed to a further investment in this limited partnership of up to $25.1 million in U.S. funds.

Infrastructure managers utilize an internal valuation policy to establish a market value for the underlying assets within their portfolios. This policy outlines that any marketable assets within the portfolio will be valued at the price on the securities exchange. Non-marketable securities will be subject to professional judgment and may take into account several factors such as:

- Market conditions
- Purchase price
- Estimate liquidation value
- Third-party transactions in the private market
- Present value of expected future cash flows
- Present value of anticipated sale or flotation when asset is soon to be divested

The above factors involve various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments.

Global Infrastructure Partners II is a second infrastructure mandate for Global Infrastructure.

**Pooled Funds**

The Plan's investment policy limits pooled fund holdings to not more than 10% of the market value of the individual pooled fund. Exceptions to the 10% limit are allowed if provision has been made to transfer securities in kind when units of the pooled fund are sold.

The Plan's pooled funds are comprised of:

| Pooled Fund | Units Held (in thousands) | | % of Total Units Outstanding | | Market Value (in thousands) | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| U.S. Equity | | | | | | |
| BlackRock CDN US Equity Index Hedged Non-Taxable Fund | 11,978 | 13,859 | 19.00% | 19.56% | $149,582 | $148,992 |
| Global Equity | | | | | | |
| Greystone EAFE (Hansberger) | 6,769 | 6,602 | 4.81% | 3.72% | 60,686 | 51,465 |
| Brandes Canada International Equity Unit Trust | 12,199 | 11,763 | 21.36% | 23.18% | 123,514 | 113,364 |
| TD Emerald EAFE | 5,350 | 5,195 | 2.30% | 2.78% | 58,321 | 50,764 |
| Real Estate | | | | | | |
| Greystone Real Estate Fund | 1,003 | 1,116 | 2.41% | 3.00% | 91,553 | 90,346 |
| | | | | | $483,656 | $454,931 |

Pooled fund investments are governed by the policies for each fund. Financial derivatives are permitted within the pooled funds as outlined below:

BlackRock funds may contain equity index futures, to replicate the return of the S&P 500 Composite Index, and currency contracts used to hedge U.S. dollar exposure back to the Canadian dollar.

Greystone is authorized to employ derivatives to protect against losses from changes in exchange rates, interest rates and market indices. These derivatives may include such instruments as options, futures, and forward contracts.

Brandes may employ the use of foreign exchange contracts to hedge against changes in exchange rates and American depositary receipts to substitute for direct investment in the underlying security.

Investments in real estate consist of Canadian commercial property held directly by the Greystone Real Estate Fund. The market appraisals used in valuing the real estate involves various assumptions. Changes in the underlying assumptions will have an impact on the market value of the investments.

**Fair Value**

The Plan has classified its investments using a hierarchy that reflects the significance of the inputs used in determining their fair value.

Under the classification structure, financial instruments recorded at unadjusted quoted prices in active markets for identical assets and liabilities are classified as Level 1. Instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly are classified as Level 2. Instruments values using inputs that are not based on observable market data are classified as Level 3.

The following table classifies the Plan's required financial instruments within a fair value hierarchy:

2012
(in thousands)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Bonds | $ - | $515,620 | $ - | $ 515,620 |
| Pooled funds | - | 392,103 | 91,553 | 483,656 |
| Short-term | 36,133 | - | - | 36,133 |
| Equities | 428,544 | - | - | 428,544 |
| Infrastructure | - | - | 81,150 | 81,150 |
| Total | $464,677 | $907,723 | $172,703 | $1,545,103 |

Fair Value measurements using level 3 inputs

| | SteelRiver | Global Infrastructure Partners | Global Infrastructure Partners II | Real Estate | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2011 | $25,682 | $33,946 | $ - | $90,346 | $149,974 |
| Net purchases and sales | 5,939 | (1,861) | 5,121 | 10,000 | 19,199 |
| Gains (losses) | | | | | |
| Realized | (46) | (172) | 5 | 2,957 | 2,744 |
| Unrealized | 2,783 | 9,008 | 745 | (11,750) | 785 |
| Balance at December 31, 2012 | $34,358 | $40,921 | $5,871 | $91,553 | $172,703 |

2011
(in thousands)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Bonds | $ - | $443,319 | $ - | $ 443,319 |
| Pooled funds | - | 364,858 | 90,346 | 454,931 |
| Short-term | 45,054 | - | - | 45,054 |
| Equities | 377,918 | - | - | 377,918 |
| Infrastructure | - | - | 59,628 | 59,628 |
| Total | $422,972 | $807,904 | $149,974 | $1,380,850 |

## 5. Derivatives

Derivative financial instruments are financial contracts whose values are derived from changes in underlying assets, interest or currency exchange rates. The Plan objective is to achieve an overall Plan duration that approximates the duration of the Plan liabilities on a going-concern basis.

At December 31, 2012 the Plan held the following derivatives:

### Future / Forward Contracts

The Plan has entered into foreign exchange forward contracts to hedge some of its foreign currency exposure in foreign equity pooled funds. Foreign exchange forward contracts are obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future.

The Plan uses a currency risk management program to manage the currency exposures inherent in the foreign equity pooled funds of the Plan, as well as provide protection of the Canadian value of the portfolio. Forward contracts are used to hedge the foreign currency exposure within the TD Emerald EAFE Fund and the Brandes Canada International Equity Unit Trust. The following summarizes the Plan's use of foreign currency forward exchange contracts within the currency risk management program:

**FOREIGN EXCHANGE FORWARD CURRENCY CONTRACTS**

(in thousands)

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| Currency | Notional Value* | Gain (Loss) | Net Exposure | Notional Value* | Gain (Loss) | Net Exposure |
| Euro | (16,513) | (1,057) | 79.0% | (51,222) | 2,531 | 35.7% |
| Hong Kong Dollar | (3,816) | (63) | 51.8% | (2,832) | 32 | 50.4% |
| Japanese Yen | (51,790) | 3,258 | 3.84% | (26,585) | (284) | 47.9% |
| Pound Sterling | (17,755) | (849) | 65.8% | (27,221) | 450 | 44.7% |
| Swiss Franc | (1,776) | (202) | 88.0% | (9,658) | 339 | 37.5% |
| | | 1,087 | | | 3,068 | |

Net exposure of the TD Emerald EAFE Fund and Brandes Canada International Unit Equity Unit is the percentage of investments denominated in foreign currency that are not hedged through forward exchange contracts.

The hedge strategy involves protecting against the foreign equity exposures that exist in the underlying portfolio of Non-North American equity mandates. The Active Foreign Currency Manager's benchmark hedge ratio is 50% of the underlying portfolio, although the manager has the discretion to apply a hedge ratio between 0-100% of the underlying portfolio. Hedging is limited to those foreign currency exposures that are included in the MCSI EAFE Index and excludes any Canadian Dollar exposures.

Based on the current rate of exchange as of December 31, 2012, the forward contracts are in a net gain position of $1.1 million (2011 – gain of $3.1 million). The foreign currency forward exchange contracts are short-term in duration and all current contracts as of December 31, 2012 have a maturity date of less than one year. This amount is included in short-term investments on the Statement of Financial Positon.

During the year management also sought increased returns and added value to the Plan by generating returns from relative movements between foreign currencies. These value added contracts are not used for hedging purposes by the Plan and are in a net loss position of $187 thousand (2011 – net gain position of $259 thousand). The contracts are short-term in duration and have a maturity date of less than one year. This amount is included in short-term investments on the Statement of Financial Position. The value added contracts the Plan has entered into are as follows:

**FOREIGN EXCHANGE FORWARD VALUE ADDED CONTRACTS**
(in thousands)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| AUD/United States | 392 | (2) | - | - |
| Brazilian/USD | 534 | 0 | - | - |
| Canadian/Euro | (8,240) | (242) | (7,168) | 245 |
| Canadian/Australian | (1,679) | 12 | - | - |
| Canadian/Japanese Yen | (2,096) | 62 | - | - |
| Canada/Russia | 0 | (1) | - | - |
| Canadian/Pound Sterling | (3,531) | (58) | (2,185) | 13 |
| Canadian/Swedish | 0 | (16) | - | - |
| CAD/United States | (5,656) | 8 | - | - |
| CHF/United States | 286 | 0 | - | - |
| CLP/United States | 41 | (1) | - | - |
| COP/United States | (29) | (2) | - | - |
| CZK/United States | 71 | (1) | - | - |
| EUR/United States | 1,136 | 19 | - | - |
| GPB/United States | (25) | (6) | - | - |
| HUF/United States | 29 | (1) | - | - |
| ILS/United States | (36) | 0 | - | - |
| INR/United States | (726) | (1) | - | - |
| JPY/United States | (608) | 6 | - | - |
| KRW/United States | (131) | (4) | - | - |

**FOREIGN EXCHANGE FORWARD VALUE ADDED CONTRACTS**
(in thousands)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| Mexican/USD | (5,016) | 27 | - | - |
| NOK/United States | 485 | (9) | - | - |
| NZD/United States | (30) | (4) | - | - |
| PLN/United States | 37 | (3) | - | - |
| RUB/United States | (9) | (26) | - | - |
| SEK/United States | (822) | (7) | - | - |
| SGD/United States | 633 | (2) | - | - |
| South Africa/USD | (3,312) | (100) | - | - |
| TRY/United States | 32 | (2) | - | - |
| ZAR/United States | 6 | (4) | - | - |
| United States/South Africa | (15) | (5) | - | - |
| United States/Australia | (384) | 10 | - | - |
| United States/Brazilian | (533) | 1 | - | - |
| United States/Chilean | (40) | 1 | - | - |
| United States/Canada | (14,286) | 104 | (9,054) | 1 |
| United States/Columbia | 30 | 3 | - | - |
| United States/Cze | (73) | (2) | - | - |
| United States/Euro | (1,120) | (4) | - | - |
| United States/Hungarian | (29) | 1 | - | - |
| United States/Indian | 730 | 5 | - | - |
| United States/MXN | 5,024 | (19) | - | - |
| United States/New Turkish | (33) | 1 | - | - |
| United States/Norwegian | (503) | (10) | - | - |
| United States/Japanese Yen | 575 | (39) | - | - |
| United States/Polish | (37) | 3 | - | - |
| United States/Russia | 15 | 32 | - | - |
| United States/Singapore | (636) | 0 | - | - |
| United States/Korean | 130 | 3 | - | - |
| United States/Swedish | 865 | 50 | - | - |
| United States/Swiss Franc | (294) | (8) | - | - |
| United States/Israel | 36 | 0 | - | - |
| United States/ZAR | 3,208 | (4) | | |
| United States/New Zealand | 35 | 9 | - | - |
| | | (226) | - | 259 |

*Notional value represents the contractual amount to which a rate or price is applied in order to calculate the exchange of cash flows, and is therefore not recorded on the financial statements.

### Repurchase Agreements

A repurchase agreement, also known as a repo, is a contract entered into between two counterparties to sell securities together with an agreement for the seller to buy back the securities at a later date. At December 31, 2012, the Plan has entered into repurchase agreements with a notional value of $788 million (2011 - $77 million) and a fair value of $17.6 million (2011 - $1.7 million). This amount is included in short-term investments on the Statement of Financial Position. The repurchase agreements have a term to maturity of less than one year. The amount of bonds pledged for collateral is $112 million. The amount of collateral required is based on the notional value of the repurchase agreements and may fluctuate with the notional value. At December 31, 2012 a 5% change in the notional value may result in a $3.15 million dollar change in required collateral.

### Interest Rate Swaps

An interest rate swap is an agreement in which two parties agree to exchange interest rate cash flows, based on a specified notional amount from a fixed interest rate to a variable interest rate. At December 31, 2012, the Plan held an interest rate swap with a notional value of $(6.8) million (2011 - $59 million) and a loss in fair value of $399 thousand (2011 - $15 thousand). This amount is included in bond investments on the Statement of Financial Position. The interest rate swap has a term to maturity of less than one year.

## 6. Due from General Revenue Fund

The Plan's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

Earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty day borrowing rate and the Plan's average daily bank account balance. The Government's thirty-day borrowing rate for 2012 was 1.08% (2011 – 1.05%).

## 7. Earnings Allocation to Members

Interest is allocated annually to the individual member's account balances in accordance with the provisions of the governing legislation. In 2012, an interest rate of 11.49% (2011 – (0.51%)) was calculated and applied to the Defined Contribution Component and the Defined Benefit Component. The interest allocated is investment income and the current year's allocation of the change in fair value of the investments, less administration, custodian and investment managers' fees.

## 8. Transfers and Refunds

| | (in thousands) | |
|---|---|---|
| | **2012** | **2011** |
| Transfers to other retirement plans | $ 560 | $ 810 |
| Transfer to other retirement vehicles | 18,205 | 13,299 |
| Withdrawals with interest | 6,827 | 2,505 |
| | $25,592 | $16,614 |

**Benefit Payments**

| | (in thousands) 2012 | 2011 |
|---|---|---|
| Lump sum payments to estates | $ 2,151 | $ 2,729 |
| Payments in lieu of annuities | 5,368 | 4,302 |
| | $ 7,519 | $ 7,031 |

## 9. Pension Obligations

The actuarial present value of pension obligations for the Defined Benefit Component of the Plan was determined using the projected benefit method prorated on service and management's best estimate assumptions of future investment performance, salary escalation, inflation, and future pension indexing.

An actuarial valuation for management purposes was performed as at December 31, 2011 by Eckler Ltd. AON Hewitt has extrapolated the results of that valuation to December 31, 2012 with interest, estimated service accruals and actual obligation payments for the purposes of these financial statements. Actuarial valuations for management purposes are performed annually.

An actuarial valuation for filing purposes was performed as at December 31, 2010 by Eckler Ltd. and filed with the regulatory authorities. On the basis of that valuation, application was made for, and temporary solvency deficiency payment relief was granted under the *Pension Benefits Act, 1992*. That valuation included the effect of a recommended contribution increase assumed to be effective January 1, 2013. The next valuation to be filed will be required effective December 31, 2013.

The effect of the recommended contribution increase assumed to be effective January 1, 2013 in the valuation for filing purposes is not reflected in the statement of changes in accrued pension obligations and provision for annuity obligations.

The pension liability is based on a number of assumptions about future events including interest rates, rate of salary increases, inflation, mortality, retirement rates and termination rates. The major assumptions used in determining the actuarial present value of pension obligations for the Defined Benefit Component of the Plan are:

| | 2012 | 2011 |
|---|---|---|
| Interest rate | 6.50% | 5.00% |
| Salary escalation to Dec 12 | n/a | 4.5% |
| Salary escalation thereafter | 3.5% | 3.5% |
| Inflation | 2.5% | 2.5% |
| Indexation of pensions | none assumed | none assumed |
| Mortality | UP 94 (projected generationally) | UP 94 (projected generationally) |

Actual rates may vary significantly from the long-term assumptions used. The following illustrates the effect of changing certain assumptions from the assumed rates of salary of 3.5%, interest rate of 6.5%, indexing on pre-1999 benefits of 0%, and indexing on post-1998 benefits of 0%. The changes in assumptions are independent of one another.

| | Effect on Pension Obligation Liability | | | | | |
|---|---|---|---|---|---|---|
| | Salary | | Interest Rate | | Pension Indexing (pre 1999) | Pension Indexing (post 1998) |
| Assumptions | 2.5% | 4.5% | 5.50% | 7.50% | 1.0% | 1.0% |
| (Decrease) Increase | (3.0%) | 3.4% | 13.7% | (10.8%) | 4.0% | 5.4% |

Because the Plan has a solvency deficiency, there is a requirement for a solvency deficiency holdback to be withheld from payouts of commuted value for a period of five years. Solvency deficiency holdbacks owing as of December 31, 2012 total $1.3 million (2011 - $48 thousand).

## 10. Provision for Annuity Obligations

The actuarial present value of the provision for annuity obligations was determined using management's best estimate of future investment performance and future pension indexing. Eckler Ltd. performed an actuarial valuation for management purposes as at December 31, 2011 and AON Hewitt has extrapolated the results of that valuation to December 31, 2012 with interest, estimated service accruals and actual benefit payments. Actuarial valuations for management purposes are performed annually.

An actuarial valuation for filing purposes was performed as at December 31, 2010 by Eckler Ltd. and filed with the regulatory authorities. On the basis of that valuation, application was made and granted for temporary solvency deficiency payment relief under the *Pension Benefits Act, 1992*. The next valuation to be filed will be required effective December 31, 2013.

The actuarial valuation was based on a number of assumptions about future events including interest rates, pension indexing (for members who elected indexed annuities) and mortality as follows:

| | 2012 | 2011 |
|---|---|---|
| Interest Rate | 6.5% | 5.00% |
| Indexation of Pensions | 2.5% | 2.5% |
| Mortality | UP94 (projected generationally) | UP94 (projected generationally) |

The actual rates may vary significantly from the assumptions used. The following illustrates the effect of changing certain assumptions from the assumed interest rate of 6.5% and pension indexing of 2.5%. The changes in assumptions are independent of one another.

| | Effect on Provision for Annuity Obligations | | | |
|---|---|---|---|---|
| | Interest Rate | | Pension Indexing | |
| Assumptions | 5.5% | 7.5% | 1.5% | 3.5% |
| (Decrease) Increase | 5.9% | (5.3%) | (0.4%) | 0.5% |

In the future, increases on non-indexed annuities will be granted to the extent that investment earnings exceed a threshold and to the extent that the assets will support it. As there is currently no surplus available, the liabilities for non-indexed annuities do not reflect any future indexing.

The cash outflow to pay the required annuity obligation is calculated using the above assumptions. The cash outflows in the next 5 years would be $13.7 million, in the next 10 years $22.7 million and in the next 30 years $32.9 million.

## 11. Financial Risk Management

The nature of the Plan's operations result in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Plan's investments. These financial risks are managed by having an investment policy, which is approved annually by the Commission. The investment policy provides guidelines to the Plan's investment managers for the asset mix of the portfolio regarding quality and quantity. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. Derivatives are allowed within the Plan to hedge against losses and substitute for direct investment. The Commission reviews regular compliance reports from its investment managers and custodian as to their compliance with the investment policy. The Commission also receives regular compliance reports from the Public Employees Benefits Agency on its custodian as to the investment managers' compliance with the investment policy.

### Credit risk

Credit risk is the risk that one party does not pay funds owed to another party. The Plan's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which it is exposed at December 31, 2012 is limited to the carrying value of the financial assets summarized as follows:

| | (in thousands) | |
|---|---|---|
| | **2012** | **2011** |
| Cash | $ 18,882 | $ 1,009 |
| Accounts receivable | 11,751 | 9,332 |
| Fixed income investments[1] | 490,138 | 488,450 |
| Due from the General Revenue Fund | 2,800 | 3,918 |

[1] Includes short-term investments, bonds, and bond repurchase agreements.

Accounts receivable are made up of employee and employer contributions receivable, accrued investment income, and accrued receivable for committed sale of an investment. Employee and employer contributions receivable are generally received in less than 30 days. Accrued investment income is received on the next scheduled payment date, generally either annually or semi-annually. Proceeds from the sale of an investment will normally be received 3 days after the trade date.

Credit risk within investments is primarily related to short-term investments and bonds. It is managed through the investment policy that limits fixed term investments to those of high credit quality (minimum rating for bonds, BBB unless otherwise permitted within specific investment manager mandate, and for short-term investments is A2/P2) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit rating for bonds are as follows:

(in thousands)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| Credit Rating | Fair Value | Makeup of Portfolio (%) | Fair Value | Makeup of Portfolio (%) |
| AAA | $152,443 | 29.56 | $122,740 | 27.69 |
| AA | 141,973 | 27.53 | 131,663 | 29.70 |
| A | 130,792 | 25.37 | 123,430 | 27.84 |
| BBB | 68,221 | 13.23 | 65,486 | 14.77 |
| BB | 6,233 | 1.21 | - | - |
| B | 15,958 | 3.10 | - | - |
| Total | $515,620 | 100.0 | $443,319 | 100.0 |

Within bond investments, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 2.73% (2011 – 2.76%)of the market value of the combined bond and short term investment portfolios. No one holding of a province is over 19.77% (2011 – 18.69%) of the market value of the bond portfolio.

The Plan is also subject to credit risk through its use of derivative contracts. The contracts are entered into between the Plan and approved counterparties. The credit risk is mitigated by limiting counterparties to specific entities.

**Market risk**

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Plan is exposed to changes in interest rates in its fixed income investments, including short-term investments, and bonds. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase in interest rates would decrease net assets available for benefits and surplus by $168 million at December 31, 2012($48.1 million – 2011); representing 12.9% of the $1.3 billion fair value of fixed income investments, of which $788 million (2011 - $77 million) is included in Repurchase Agreements – see Note 5. Conversely, a decrease in interest rates of 100 basis points would increase net assets available for benefits and surplus by $168 million at December 31, 2012($48.1 million – 2011); representing 12.9% of the $1.3 billion fair value of fixed income investments

The Plan has implemented a fixed income overlay strategy to manage interest rate exposure. This overlay creates an asset-liability duration match which neutralizes the market value impact of interest rate shocks. Repurchase agreements have been transacted as a means to position duration of assets to parallel the duration (or interest rate sensitivity) of Plan liabilities.

Foreign exchange

The Plan is exposed to changes in the U.S./Canadian dollar exchange rate through its U.S. denominated investments. Also, the Plan is exposed to EAFE (Europe, Australasia and Far East) currencies through its investment in global equity pooled funds. Exposure to both U.S. equities and non-North American equities, including the pooled equity funds, is limited to a maximum 47% each of the market value of the total investment portfolio. At December 31, 2012, the Plan's exposure to U.S. equities was 12.0% (2011 – 19.2%) and its exposure to Non-North American equities was 10.5% (2011 – 15.6%).

At December 31, 2012, a 10% appreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $12.8 million (2011 - $11.6 million) decrease in the increase in net assets available for benefits. A 10% weakening in the Canadian dollar versus the EAFE currencies would result in approximately a $12.8 million (2011 - $11.6 million) increase in net assets available for benefits.

The Plan's exposure to exchange rate risk resulting from the purchase of goods and services is not considered material to the operations of the Plan. The Plan has mitigated its exposure to foreign exchange through the use of derivatives as explained in Note 5. As at December 31, 2012, the Plan's exposure net of derivatives is $343 million (2011 – $262 million). A 10% change in the exchange rate would equate to a net change of $34.5 million (2011 – $26.2 million).

Equity prices

The Plan is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities comprise 53.0% (2011 – 53.6%) of the carrying value of the Plan's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee represents greater than 10% of the market value of the Plan. As well, no one holding represents more than 30% of the outstanding share issue of any corporation.

The following table indicates the approximate change that could be anticipated to both the increase in net assets available for benefits based on changes in the Plan's benchmark indices at December 31, 2012:

| | (in thousands) | |
|---|---|---|
| | 10% increase | 10% decrease |
| S&P/TSX Composite Index | $ 29,841 | $ (29,841) |
| S&P 500 Index | 27,703 | (27,703) |
| MSCI EAFE Index | 24,252 | (24,252) |

Securities lending

At December 31, 2012, no Plan assets have been deposited or pledged as collateral as part of the securities lending strategy. As part of the Plan's securities lending strategy, collateral has been pledged to the Plan by various counterparties for securities out on loan to the counterparties. At December 31, 2012, the total amount of collateral pledged to the Plan amounted to $136 million (2011 – $178 million). Security lending obtains collateral of at least 105% of the market value of the securities lent. Such loans must be secured by readily marketable government bonds, treasury bills and /or letters of credit, discount notes and banker's acceptances of Canadian chartered banks.

Real Estate and Infrastructure Investment Risk

Risk in the real estate portfolio and infrastructure investments are managed through diversification across types and locations. Adverse impacts in any one segment of the market or geographic location are minimized by having holdings diversified across property type, geographic location and investment size.

**Liquidity risk**

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. Accounts payable are due within one year.

## 12. Administrative Expenses

The annual operating expenditures associated with the Plan's administration are paid to the Public Employees Benefits Agency Revolving Fund except for custodial fees and investment management fees, which are paid directly.

(in thousands)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Budget (unaudited) | Actual | Budget (unaudited) | Actual |
| Audit fees | $94 | $78 | $50 | $86 |
| Actuarial fees | 200 | 155 | 126 | 217 |
| Administration costs | 5,081 | 4,661 | 4,653 | 4,619 |
| Custodial fees | 165 | 518 | 181 | 141 |
| Investment fees | 5,006 | 5,498 | 4,545 | 4,655 |
| | $10,546 | $10,910 | $9,555 | $9,718 |

## 13. Related Party Transactions

All Government of Saskatchewan agencies such as ministries, corporations, boards and commissions are related to the Plan by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control or significant influence by the Government of Saskatchewan are collectively referred to as "related parties". Costs charged by the Public Employees Benefits Agency Revolving Fund in administering the Plan are reflected in these financial statements.

The Plan holds $3.3 million (2011 - $5.4 million) in Province of Saskatchewan Bonds. Investment loss on these bonds, including the current period change in the market value of investments, was $0.1 million (2011 – gain of $0.4 million).

The Plan has an accounts payable balance as at December 31, 2012 of $0.8 million (2011 – $0.9 million) due to the Public Employees Benefits Agency Revolving Fund.

Other related party transactions are disclosed separately in these financial statements.

Account balances resulting from the above transactions are included in the statement of financial position and are settled at agreed upon exchange rates.

## 14. Capital Management

The Plan receives new capital from employee and employer contributions. The plan also benefits from income and market value increases on its invested capital. The Plan's capital is invested in a number of asset classes including equities, fixed income, real estate, infrastructure, and short-term investments. The Commission has delegated the operational investment decisions to a number of different investment management firms through a number of different investment mandates as defined in the Plan's Statement of Investment Policy and Procedures.

## 15. Investment Performance

The investment managers make day-to-day decisions on whether to buy or sell investments in order to achieve the long-term performance objectives set by the Commission. The Commission reviews the investment performance of the Plan in terms of the performance of the benchmark portfolio over 4 year rolling periods. The primary long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio.

The following is a summary of the Plan's investment performance:

| 2012 | Annual Return | Rolling Four Year Average |
|---|---|---|
| Plan's actual rate of return before deducting investment and administration expenses | 14.50% | 9.75% |
| Benchmark | 10.78% | 9.33% |

The Plan's benchmark for its investment portfolio has been determined using the actual returns of market indexes such as the S&P/TSX Capped Composite Index, Standard & Poor's 500 Hedged U.S. Stock Index, Russell 2000 Hedged index, Morgan Stanley, Europe, Australasia and Far East Index, DEX Universe Bond Index, 91 Day Canadian Treasury Bill, and Investment Property Databank Ltd. Return Index.

## 16. Fair Value

For financial instruments including due from general revenue fund, short-term investments, accounts receivable, and accounts payable, cost approximates fair value due to their immediate or short-term maturity.

The fair values of investments are considered to be market value, the calculation of which is detailed in Note 3.

## 17. Contingencies

A union representing participating employees has applied by Notice of Motion, which also names several participating employers, for an order quashing purported decisions of the Commission relating to the application of actuarial surplus in the fund, as well as other relief. It is not possible to estimate the potential effect of the claim at this stage in the proceedings.

## 18. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

**S&P/TSX Composite**

The S&P/TSX Composite Index is Canada's bellwether electronically operated stock exchange. It is the headline index and the principal broad market measure for the Canadian equity markets. This is the basis for numerous sub-indices, which break down the Canadian market by different factors including size, Global Industry Classification Standard (GICS®) and income trust inclusion versus non-inclusion. The index is calculated and managed by Standard & Poor's and is the main benchmark for Canadian pension and mutual equity funds.

**S&P/TSX Capped Composite**

S&P/TSX Capped Composite index includes all constituents of the S&P/TSX Composite index with relative weighting of each constituent capped at 10% equity weighting.

**S&P 500**

Standard & Poor's 500 Composite Stock Index consists of the largest 500 companies in the United States chosen for market size, liquidity and industry group representation. It is a market-value weighted index, with each stock's weight in the index proportionate to its market value. For the purposes of this report, the S&P Index returns are converted from U.S. dollars into Canadian dollars and, therefore, reflect currency gains or losses.

**MSCI EAFE**

Morgan Stanley Capital International Europe, Australasia, Israel, and Far East Index (MSCI Index) is a widely recognized benchmark of international equity performance. It is a free-float weighted equity index comprising of over 20 developed market country underlying indices representing developed markets outside of Canada and the US.

**DEX UBI**

DEX (formerly Scotia Capital) Universe Bond Index covers all marketable Canadian bonds with term to maturity of more than one year. The Universe contains over 1,000 marketable Canadian bonds with an average term of 10 years and an average duration of 6.5 years. The purpose of the index is to reflect the performance of the broad "Canadian Bond Market" in a similar manner to the S&P/TSX Composite Index.

**DEX All Corporate Bond**

DEX All Corporate Bond Index covers all marketable Canadian corporate bonds with a term to maturity of more than one year. The index is based on the Corporate sector of the DEX UBI. The purpose of the index is to reflect the performance of the corporate Canadian bond market.

**DEX Long Term Overall Bond**

DEX Long Term Overall Bond Index covers all marketable Canadian bonds with a term to maturity of at least 10 years. The index is based on the long-term bonds held within the DEX UBI. The purpose of the index is to reflect the performance of the long-term Canadian bond market.

**DEX All Government Bond**

DEX All Government Bond Index covers all marketable Canadian government bonds with a term to maturity of more than one year. The index is based on the government bonds held within the DEX UBI. The purpose of the index is to reflect the performance of the Canadian government bond market.

**DEX 20+ Strip Bond**

DEX 20+ Strip Bond Index covers marketable Canadian strip bonds with a term to maturity of greater than 20 years. The index contains only Canadian federal and provincial government debt issues. The purpose of the index is to reflect the performance of the very long-term Canadian government bond market.

**IPD Total Property**

The REALpac / IPD Canada Annual Property Index is published by the Investment Property Databank Ltd. On December 31, 2010, REALpac assumed the functions of the Institute of Canadian Real Estate Investment Managers ("ICREIM"), an organization originally formed to manage the Frank Russell Index for Canada and subsequently, the ICREIM / IPD Canada Property Index. The index measures total returns to directly held standing property investments from one open market valuation to the next. IPD compiles property level information from pension funds, life insurance companies and real estate managers on a quarterly basis.

**91-Day T-Bills**

Canada Treasury Bills represent the highest quality short-term instruments available. The index is constructed by selling and repurchasing Government of Canada T-Bills with an average term to maturity of 91 days. The Scotia Capital 91-Day Treasury Bill Index is calculated and marked to market daily.

**CPI**

Consumer Price Index is used to gauge Canada's inflation rate. The series used is the all items, not seasonally adjusted, 1992 base.

**Russell 2500**

The Russell 2500 Index offers investors access to the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set.